



PoP Shoppes International Inc.

Financial Highlights

In Thousands	1978	1977	% Change
Systemwide Sales	47,969	40,509	18
Revenues	16,150	21,991	(27)
Net Earnings	2,571	2,101	22
Shareholders' Equity	16,156	13,899	16
Earnings Per Share			
Basic	.54	.46	17
Fully Diluted	.52	.45	16
Common Shares Outstanding (Weighted average)			
Basic	4,422	4,332	2
Fully Diluted	4,815	4,710	2

Annual Report 1978

Contents

1 To Our Shareholders	16 Consolidated Statement of Earnings
3 Growth Chart	17 Consolidated Statement of Retained Earnings
4 PoP Shoppes International 1978	17 Auditors' Report
7 The Double Cola Company	18 Consolidated Statement of Changes in Financial Position
8 PoP Shoppes Markets	19 Notes to Consolidated Financial Statements
10 PoP Shoppes Licensees Speak Out	24 Seven Year Financial Review
13 Financial Review	
14 Consolidated Balance Sheet	



To Our Shareholders

We are most happy to report another successful year during 1978. Systemwide sales (licensee and corporate bottling plants) for the year were a record \$47,969,000, up 18% from \$40,509,000 for the same period in 1977. This growth is mainly attributed to an increase in sales of existing operations.



Ralph E. Peterson, President & Chief Executive Officer with Robert E. M. Nourse, Executive Vice-President

Your Company sales for 1978 were \$16,150,000, a decrease of \$5,841,000 from \$21,991,000 in 1977. This decrease in revenues is due mainly to the sales of four corporate plants during the last quarter of 1977 and one plant in the second quarter of 1978. These locations recorded a combined revenue of approximately \$8.0 million dollars for the most recent twelve months of operations. The sale of these corporate plants is in keeping with our policy to open new markets and sell them to competent operators.

Net earnings for the year were \$2,571,000 or \$.52 per share on a fully diluted basis up 22%, compared to \$2,101,000 or \$.45 per share for the prior year. As explained in the third quarter report to shareholders, a substantial amount of 1978 earnings can be attributed to an extraordinary item of \$1,877,782 resulting from the purchase by Imasco Limited of an additional 27.8% of PoP Shoppes of America, Inc. and netted against certain provisions on U.S. investments.

Double Cola Acquisition

In January 1979, PoP Shoppes International acquired The Double Cola Company of Chattanooga, Tennessee, a manufacturer of one of the finest cola concentrates in the world. This acquisition will mean greater market impact for your Company in North America and abroad, and we expect to realize a substantial increase in revenues in 1979. Double Cola's market recognition and penetration is national in scope, and is backed by successful marketing, promotion, sales support and distribution. The combination of PoP Shoppes and Double Cola creates significant opportunities for both companies to benefit from each other's experience. Double Cola with 150 bottlers and distribution points in North America and 35 plants internationally has been in business

since 1929 and boasts one of the finest concentrate manufacturing facilities. Double Cola will manufacture concentrate for all of the PoP Shoppes' licensees in the United States, thereby assuring high quality products for the entire system.

Marketing Review

A new consumer market study was instituted in the United States by Market Facts Inc., a leading consumer research firm. We also contracted George R. Frerichs and Associates to undertake a comprehensive investigation which has resulted in a computer model allowing PoP Shoppes to optimize the number, type and location of PoP Shoppe's retail outlets in each market area. These studies will determine consumer attitudes toward PoP Shoppes and help devise a more sophisticated approach towards the development of creative materials, site selection and a variety of other aspects of our marketing programs.

Our newly appointed advertising agency, Dawson, Johns & Black Inc., of Chicago, has successfully introduced the first phase of our long-term marketing strategy. The second phase of this program will be initiated early this Spring and is outlined in the annual report. One of the interesting marketing opportunities being explored by your Company is the potential of self-service gasoline stations as retail outlets for PoP Shoppes' products. Market tests are underway in several key areas across North America and results to date have been encouraging.

License Operations

Worldwide license enquiries continue to be received. The completion of new license agreements has been temporarily slowed, pending the implementation of our new retail development program in ten initial target markets.

A licence for six plants for Australia was signed in late 1978. A plant in Brisbane, a city of about one million people, is scheduled to open in late September, with development in Sydney to follow. A license agreement has been signed for the territory of Puerto Rico. Preliminary plans are to open this market late in 1979. Additionally, in 1978 the license for the Omaha, Nebraska territory was sold and opening is scheduled in June 1979. New markets also opened in Thunder Bay, Ontario; Rock Island, Moline and East Moline in Illinois; and Davenport, Iowa.

In the third quarter, 1978, PoP Shoppes of America purchased the Richmond, Virginia licensed territory and, at the same time, it sold the Alameda (San Francisco) license. The Richmond operation was in a profitable position, while the Alameda plant was showing losses in its early development. The major reason for this transaction was to bring a highly competent management group to the Alameda operation. To date, we are pleased with the restructuring of the Alameda license territory and are optimistic of the potential results.

The Texas license territory was also restructured in 1978 and the license was sold in early 1979 to one of our existing licensees in the Maritime Provinces, who is currently constructing a second Texas plant located in Fort Worth.

Towne Club

In July 1977, PoP Shoppes of America acquired Towne Club Beverage Corporation of Detroit, where the company has operated successfully for twenty years. The basic marketing concept of Towne Club is similar to PoP Shoppes', and the "natural fit" of the two companies has accelerated PoP Shoppes' growth in the U.S. The management team of Towne Club, including owner and founder, Mr. Harold Samhat, have continued their fine performance under the Towne Club brand name.

Management and Directors

In mid 1978, the management reorganization required Mr. Donald Loeb and myself to become involved in the day-to-day operations of the Company with the object of effecting a much-needed rebuilding process. To this end, several new members of senior management joined the Company, bringing with them a high degree of professionalism and operating experience.

In early 1979, Ralph Peterson, with extensive experience in franchise operations, was named President and Chief Executive Officer, moving from the position of Senior Vice-President of Hardee's Food Systems, Inc., a U.S. fast-food chain with systemwide sales in excess of \$550 million. Prior to this, he was Chief Financial Officer for the Kentucky Fried Chicken Corporation with over 4,000 stores.

Robert Nourse was promoted to Executive Vice-President assuming the responsibility for operations, marketing and retail development; Philippe Gascon was appointed Vice-President and Chief Financial Officer. To emphasize the importance of product quality, William Emery, previously with Pepsi Cola Canada, was appointed to the new position of Vice-President, Quality Assurance, and is responsible for all operational,

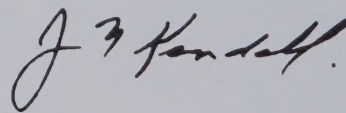
product and equipment evaluation aspects. All men have well-rounded backgrounds in their respective fields.

Various other internal management changes have been completed that establish a strong centralized management team and, in addition, we are pleased to welcome three new Board members. Mr. Roger Neron, President of Culinar Inc., the holding company for a number of corporations including Vachon Foods; Mr. George A. Minden, President of the Windsor Arms Hotel, is well known in the Toronto area through his activities in the food, beverage and hotel industry; Mr. Wilmat Tennyson, who is Executive Vice-President of Imasco Associated Products Limited.

Outlook

PoP Shoppes has always enjoyed consumer acceptance. With the implementation of the various marketing and retail development programs, your management team will be able to concentrate on moving towards a stronger position for PoP Shoppes in the soft drink industry.

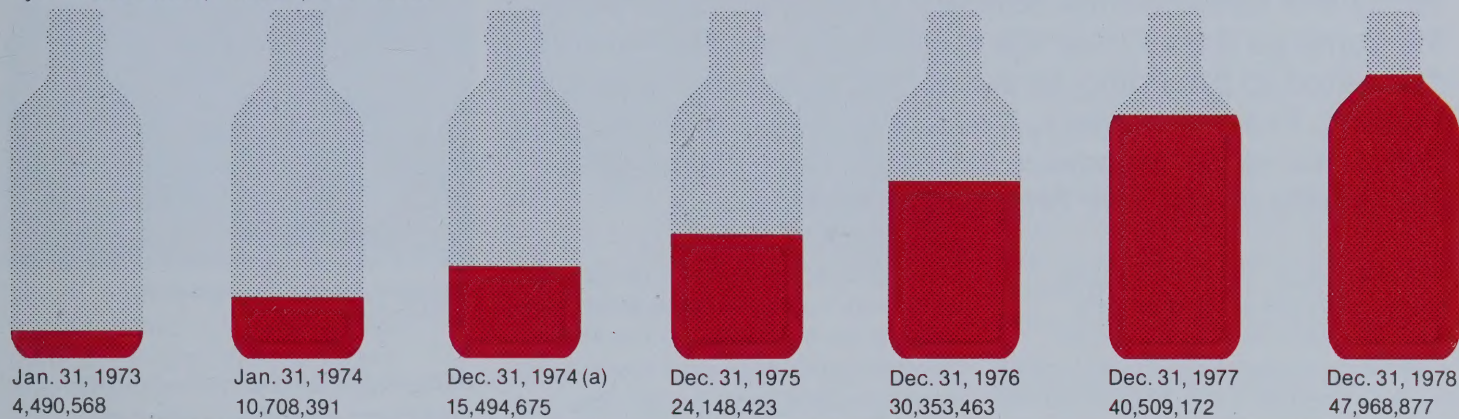
PoP Shoppes' success in 1978 is the sum of the contributions of many individuals. As we strive toward continued success and prosperity we will be accompanied by loyal employees, licensees, directors, stockholders and customers who, individually, are PoP Shoppes' past, present and future.



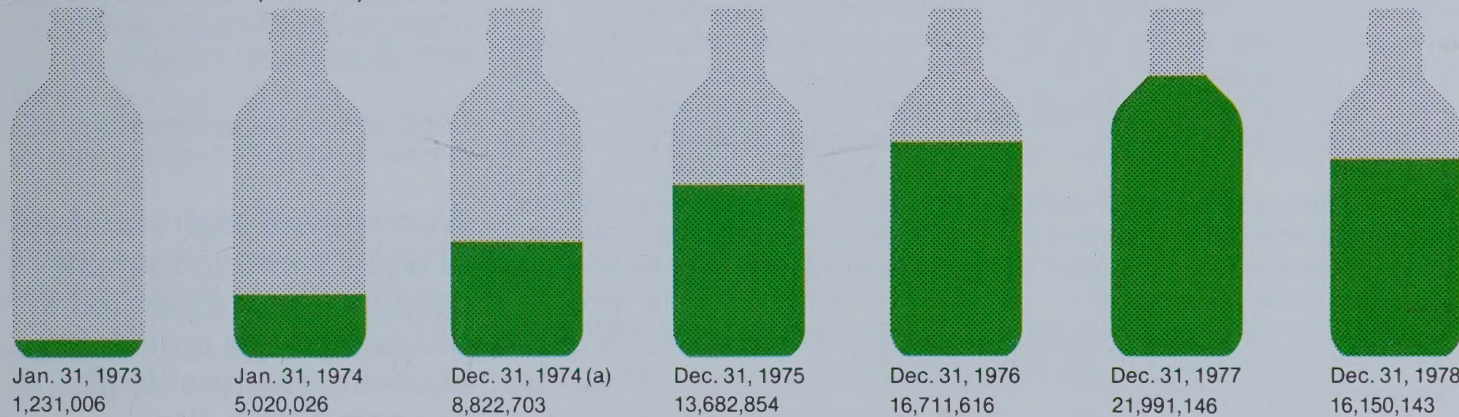
Jeremy N. Kendall
Chairman of the Board.

Growth

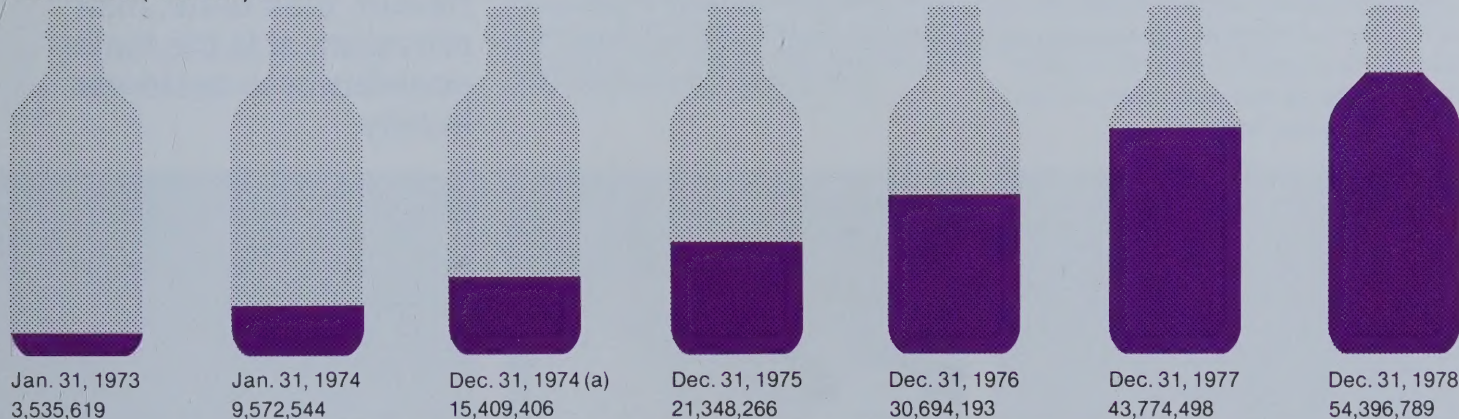
Systemwide Sales (in dollars). Year ended:



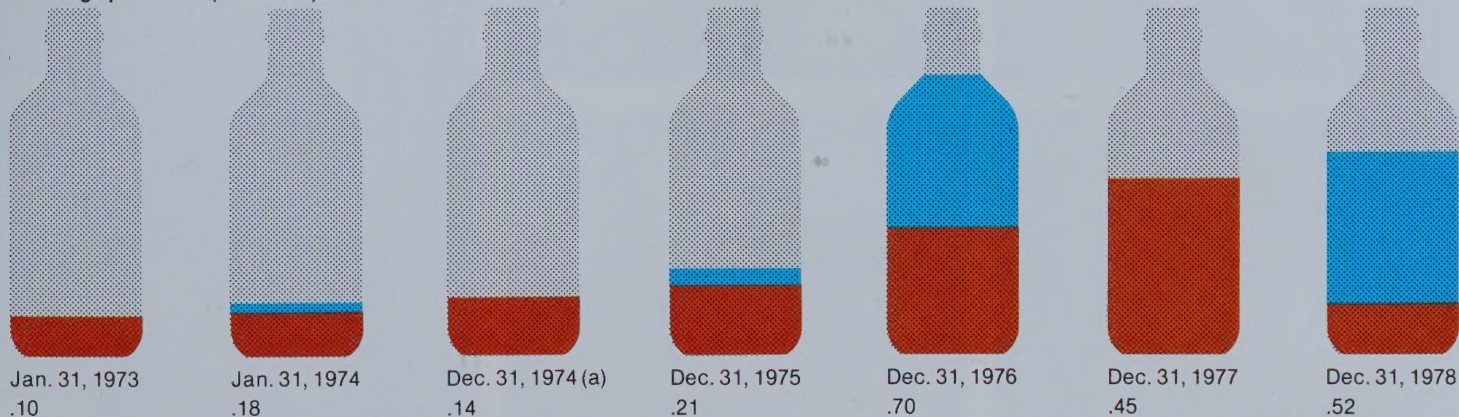
Consolidated Revenues (in dollars). Year ended:



Total Assets (in dollars). As at:



Earnings per Share (in dollars). Year ended:



(a) Eleven Months

Indicates non-operating earnings for the years ended Jan. 31, 1974, Dec. 31, 1975, Dec. 31, 1976 and Dec. 31, 1978, of \$.02, \$.03, \$.39 and \$.40 respectively

PoP Shoppes International 1978

Today, the fundamental concept of The PoP Shoppe is the same as it was from the very beginning. We remain dedicated to providing an outstanding value in a quality product. From St. John's, Newfoundland to San Diego, California value-conscious shoppers have recognized the validity of The PoP Shoppe concept.

Ten years ago, The PoP Shoppe began with a relatively simple concept: offer the public an outstanding value in a quality soft drink by reducing the costs of distribution and packaging. Those two factors account for up to 80% of the retail price of major brands. We reduced costs by selling from the "front door" of the factory, in returnable bottles only, and by the case.

The concept was a success, enthusiastically received by consumers, and profitable for your company. It continues to be a success, but also has its limitations. In a major metropolitan area, for example, one retail outlet is insufficient to capture more than a small percentage of potential customers who like our product and want to buy it. As a result, a limited number of satellite stores have been added in each market area.

Our experience over the years and extensive consumer research have refined the execution of The PoP Shoppe concept to a far more sophisticated level. Today, for example: our economies in distribution are achieved through a policy of *selective* retail distribution. Using complex computer models to map a city into trading areas, we place only one retail outlet per trading area of about 40,000 population. This approach enables us to provide convenient locations to a majority of consumers while at the same time benefiting from the efficiencies of bulk shipments and handling . . .

Quality is controlled through extensive laboratory testing in Stratford, Ontario and Chattanooga, Tennessee, where the concentrates



William F. Emery, Vice-President,
Quality Assurance

used in producing PoP Shoppes soft drinks are manufactured. Field technical staff inspect our bottling plants, and samples of each plant's product are tested regularly . . .

Competitive retail prices are monitored in each market area to

A consistent high standard of quality throughout our product line is essential to our company's continuing success. The quality of our soft drinks; their flavour, their taste, their refreshment is the major contributor to customer loyalty.



ensure PoP Shoppes remains a value leader . . .

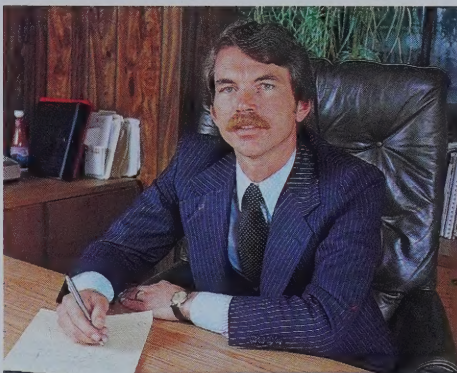
Packaging trends are constantly studied to find new ways in which to achieve both efficiency and attractive presentation adaptable to the concept of bulk shipment and quantity purchasing . . .

Our advertising and promotion is assisted by consumer research which tests the effectiveness of our message and by clearly defined demographic profiles of target customers which, in turn, facilitate efficient media placement. The PoP Shoppe's signature line, "It's a Better Way to Buy Soft Drinks", not only promises a realistic consumer benefit, but is an accurate statement of what The PoP Shoppe offers.

The result of these efforts is a well defined business concept, professionally planned and executed. Let's look at some of the activities of the past year that have contributed to these programs.

Consumer Research

In 1978, we conducted a major consumer survey involving a sample



Christopher W. E. Hovey, Vice-President, Corporate Planning

of over 8,000 U.S. households drawn from every city and town in which PoP Shoppes has retail representation. The study was a detailed investigation of attitudes toward soft drinks in general, attitudes toward PoP Shoppes and its major competitors, and experience in buying and using our product. The research demonstrated, for example, that in market areas where we are already established there is

More and more, PoP Shoppes International is increasing its investment in well-established market research techniques and highly sophisticated site selection research and relying on their results to refine its marketing endeavors and improve its retail development program.

a known potential for growth to more than eight times the present PoP Shoppe volume. That doesn't take into account new market areas we may enter. A comparable survey was initiated in Canada at the end of 1978 and will be completed during 1979.

Another consumer survey undertaken in Canada concerned the effectiveness of our Canadian spokesperson, Eddie Shack. He came through with flying colours!

Retail Development Program

During 1978, the company invested in a detailed study of its retail distribution practices. George R. Frerichs & Associates, a Chicago-based firm with over 20 years experience in site selection and



retail distribution analysis, was engaged. As a result of this work, we have been able to develop more precise policies as to the number, type, and location of PoP Shoppes retail outlets in a given market area.

A further outcome of this work is the company's retail development program intended to upgrade the quality of retail distribution in each of our existing markets. Conceived for implementation in 1979, candidate sites are examined for their visibility, signage opportunities, ease of ingress and egress, space and merchandising potential. In all, over 30 variables are systematically analyzed. Then, carefully trained sales teams work with our bottlers in each marketing area to call on head offices, district offices, and retail stores of the organizations we want to represent us. Specially designed signage kits and merchandising programs facilitate the conversion of existing stores to PoP Shoppes outlets with a minimum of time and expense.

Advertising and Promotion

In 1978, Dawson, Johns and Black Inc. was engaged as the advertising

In Canada, Eddie Shack will continue to be The PoP Shoppe's principal spokesperson. An animated character, Casey, will serve the same function in the United States. With their help Pop Shoppes will be providing an "All-Family" appeal to consumers and continuing to give them a reason to believe that PoP Shoppes can provide high quality at a low price.

agency for PoP Shoppes in the United States. The agency was selected primarily on the basis of its experience in consumer package goods and in working with franchisee or licensee organizations. The new material created by the agency features an animated character, "Casey", to deliver our company's advertising and promotional messages. PoP Shoppes bottlers are provided with material for use in all of the major advertising media.

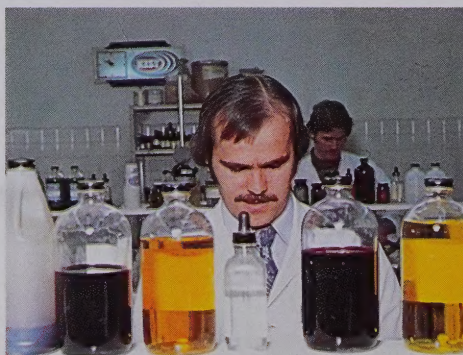
Advertising and promotional materials in Canada are handled by Totalmarketing Inc. and, as in the United States, all materials are available for use in principal advertising media.

In Canada, Eddie Shack continues to enjoy widespread acceptance as the spokesperson for our company. In addition, in 1978, we were



William Y. May, Vice-President, Canadian Operations with Eddie Shack and Henri Richard

pleased to add former Montreal Canadiens' hockey star Henri Richard as an additional spokesperson for our product. Richard will carry the principal responsibility for representing PoP Shoppes in the province of Quebec. Both Shack and Richard make frequent public appearances on behalf of the company.



The Double Cola Company

PoP Shoppes International is proud of its most recent association. The Double Cola Company of Chattanooga, Tennessee is a dynamic, growth-oriented enterprise and manufacturer of one of the finest cola concentrates in the world. A widely known brand first introduced in 1927, Double Cola is currently the fourth ranking Cola in the United States by sales volume and an aggressive and innovative marketer. Market recognition and penetration is extremely high in most regions of the United States as a result of sound marketing, promotion, sales support and distribution activities.

The Company also manufactures a sugar-free cola product, a flavour line and an exciting new lemon-orange beverage called Ski. Double

Cola has 150 licensed bottlers and warehouse locations in North America. It also has 31 bottlers abroad in Canada, Mexico, Italy, Japan, Ireland, Syria and Nigeria. Greater market penetration in North America, as well as in Europe and the Middle East, is on Double Cola's agenda for the next few years.



Thomas L. Thompson, Vice-President, U.S. Operations

With a modern 68,000 square foot plant in Chattanooga, as well as a small plant in Mexico, the Double Cola Company has been producing unusually high quality emulsions and concentrates since its inception. Concentrate sales are important to PoP Shoppes International since a guaranteed supply of high quality emulsion and concentrate is vital to the success of PoP Shoppes bottlers.

The Combination of PoP Shoppes International and Double Cola creates one of the ten largest soft drink companies in North America. More important, the combination of management experience and expertise creates a forceful, innovative, expanding enterprise, more than ever before capable of impact on the industry and in the marketplace.

Since Wayne Downey and his partners took over Double Cola some five years ago the company's annual sales have more than doubled. Prior to joining Double Cola, Downey learned the soft-drink business as a marketing man for another major manufacturer. Downey continues on as President and C.E.O.

With the acquisition of The Double Cola Company of Chattanooga, Tennessee, PoP Shoppes International is now in a position to honour its commitment to its licensees in the United States to produce its own consistent high-quality concentrates. PoP Shoppes International welcomes Double Cola!

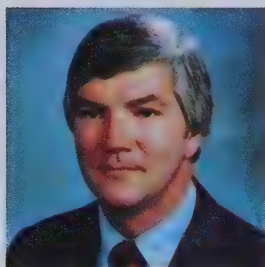






PoP Shoppes Licensees Speak Out

PoP Shoppes licensees share a common interest in their company. But, that interest is expressed in many different ways. Here are some of their views in their own words.



"I was looking to get into my own business again and after a lot of research The PoP Shoppe concept looked very good to me. We are probably the widest held operation in PoP Shoppes with forty shareholders and we can't be profitable unless we have a good company. We've turned the profit corner and we're enthusiastic about the future.

"Quality of product is the key. We excel at getting trial because of good promotions, but the quality of the product is what brings them back. We now have achieved consistent quality. Our packaging is another advantage. We have a 240 ounce package, but it's very flexible so we can compete successfully. And, finally, I think our price is very competitive."

John Barton/Hartford



"Our one competitive edge is the price/value relationship we offer. It's unique in the industry. At the same time, distribution has to be broadened and intensified to have impact in the marketplace.

"It's not just the number of retail outlets you have either. They have to be the right outlets. They have to offer the right environment for the customer. Easy access and parking, certainly. A good presentation of the product on the inside. Generally, a nice feel to the shop, clean, well-cared for. That sort of thing."

Jerry McCabe/Dallas, Fort Worth

"PoP Shoppes is a marvelous business opportunity, the chance to make a good profit. There's the challenge of establishing a new concept and a new product in a new market area. It's a little bit like David and Goliath. We're trying to carve a niche, and that's fun."



"I was taken by the concept of a supermarket for soft drinks and the idea that you could be successful with a small share of market. That's why I went in with PoP Shoppes.

"We have to increase our retail distribution, especially in large cities. The new research done on site location will help tremendously.

"The trick, obviously, if you're going after a small share within a large, concentrated market is to have enough distribution within the market area so that your targeted share can be reached and maintained. Convenience can be stretched when people are fired up about a new idea or product. You know, they want to try it. But, each time they come back the novelty wears off. Then, convenience takes on increased importance."

Serge DeConick/Moncton



"To me, PoP Shoppes is a personal commitment. We've barely scratched the surface. Our advantage is our price and quality. We have the convenience of packaging and quick shopping, if not always a geographic convenience. There's a charisma in being part of a new concept - we feel it and our customers feel it."

Denis Denomme/Edmonton

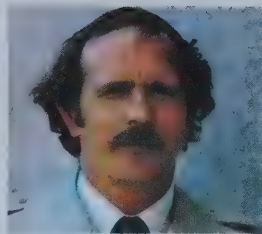




"You challenge the giants by taking a slightly lower profit margin, offering as good or better product and better service. By service I mean people. People are the backbone of any business. We have the opportunity to deal directly with our customers and control the retail environment, so we present our product one-on-one with the customer and service becomes very important."

"California is a somewhat unique market primarily because of the overwhelming emphasis on convenience. Price and extra savings are not as important as convenience in California. Shopping patterns which are very local in character are the rule and this has made The PoP Shoppe concept a real challenge. Consequently we have many retail outlets. Still, California is an exciting market, PoP Shoppes is an exciting business concept, so all I can say is California here I come!"

Jim Herbert/Alameda



"We're opening The PoP Shoppe in Australia. We think the rewards will be great. The concept of PoP Shoppes and the quality of the product are easily transportable to Australia. We're very excited about it, my four partners and myself."

"One of the unique aspects of The PoP Shoppe operation is that you control the business from inception to consumption. We'll manufacture the cases and bottles right in Australia and PoP Shoppes own concentrates will be made here too."

"The two apparent competitive edges are the 26 flavours and the fact that you buy it by the case. The other thing is that the shopping experience can be fun and friendly. I don't think price is really a competitive edge, it's too variable. The customer has to feel comfortable in a PoP Shoppes store because that's what creates product loyalty rather than price loyalty. We can learn from past PoP Shoppes experience what to do and what not to do. We look forward to that kind of co-operation from P.S.I."

Denis Johnson/Brisbane, Australia

"Our marketing strategies being developed out of PoP Shoppes International are becoming much more sophisticated than in the past. Remember, people can't buy our product in restaurants, from vending machines and the like, and since people tend to eat out more, go out more we need marketing ingenuity."



"I was looking for some excitement and PoP Shoppes seemed to fit the bill. I went into the mid-west because it seemed the closest to the Canadian experience that had been most successful. We pioneered the third party retailer in the U.S. and with stringent criteria the third party retailer has been very successful for us."

"We offer a quality soft drink at quite a reasonable price, but we ask our customers to go through a lot, so it's a kind of trade-off. The customer has to go to a special location, fill up his or her own case, carry the case out to the car, bring back the empties, start all over again, and put down a significant deposit on top of all that. But people wouldn't do it if the product didn't perform. Quality has got to be number one. Of course, if people like the product and go through the routine, they become part of the system and very loyal customers."

John Hethrington/Duluth



"A good part of our success has to do with becoming actively involved in the community. Both the dealer and the product have to be involved with the local community... charities, service organizations, community affairs, etc. It's good for the community and it's good for business. You get known and you get respect."

"It helps to be well-rounded in small business operations as well. You have to understand all aspects of the business and work it. You can't treat it only as an investment, not when you want to grow it. After all, you have to motivate the seller as well as the buyer."

"In that respect, PoP Shoppes is doing a better job than ever. What we need now is good solid middle management to service licensees more effectively and efficiently."

John Zavitz/Minneapolis

"We're not competing with the majors yet. Some day I hope we will be. What we need to compete effectively we're beginning to see develop into reality: consistency, believability, quality, and convenience of locations."





"We have to look toward new products to expand our market. Such things as new flavours, vitaminized drinks, non-carbonated drinks, a whole range of beverages would be very exciting."



"Building a business is the major satisfaction I get. In PoP Shoppes you learn to go around the giants, you don't go directly up against them. You then aim your marketing at those households that are going to be attracted to your concept, your product, so you have to carefully define your market."

"Our unique concept and attractive packaging is a strength and so is our quality, but you don't talk quality, you prove it."

Ralph Struzziero/Portsmouth



"We manufacture all the flavours for all The PoP Shoppe plants in Canada. And, we're owned 100% by PoP Shoppes International. We guard PoP Shoppes flavour formulas very jealously because it's very important to the success of the products."

"We have an excellent technical staff involved in R&D and quality control. All raw materials used are checked out and we check each batch of concentrates. We also check the finished products from samples supplied by the bottlers."

"We're at the very heart of the process. We look upon the quality of the PoP Shoppes flavours as being as high as any major soft drink company. But, there are new opportunities ahead, new flavours, non-carbonated fruit drinks, etc., all the way down the line."

*Mark Seguin, President
Kist Canada Ltd., Stratford*



"The acquisition of Double Cola by PoP Shoppes creates one of the largest soft drink concerns in the U.S. The relationship will bring us some needed financial depth, allowing us to expand into six or seven new markets. It gives PoP Shoppes a manufacturing capability in the U.S. and a facility which is the size of the Coca Cola facility, and very sophisticated."

"We have an affiliation with Joyce, the largest 7-Up and largest independent bottler in the world, and they're distributing Double Cola in many areas of the U.S. That association with Joyce will help us and PoP Shoppes grow and expand healthily."

"We're expanding in the international market; Mexico and Italy where we're already quite successful and Canada, Ireland, Puerto Rico, Nigeria and Equador."

"We're proud to be part of The PoP Shoppe operation. We can benefit and profit from our blend of talent and experience."

*Wayne Downey, President,
Double Cola/Chattanooga*

"We've developed the free-standing PoP Shoppe in connection with service stations which are beautifully converted into soft drink stores. They have about a thousand cases on display. It's a good retail set-up. Most of them are in shopping centres."



"My two partners and I feel our PoP Shoppes franchise is a once-in-a-lifetime opportunity. We like the new strong company support, but we like the independence, too."

"Making money, of course, is the big reward, but equally important is working for yourself, and helping some of our third party vendors grow and prosper. We think the way to go is to expand distribution and let the advertising help pull the product through."

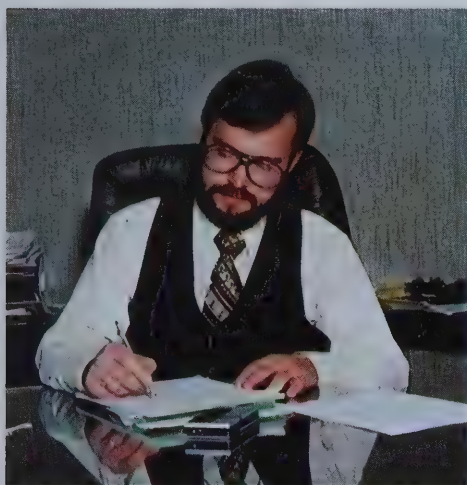
"My feeling is that we have to be both alert and open to the total beverage market and look for new opportunities. In that way, the future is truly open-ended."

"Our customers are fantastically loyal. They make an investment after all, a kind of commitment to come to us. It's like joining a club, isn't it? We have an obligation to our customers to serve them well, treat them right, be friendly, clean and neat. And, to offer them new products. That's the secret."

Jack Rutherford/Calgary

Financial Review

Revenues. Systemwide sales increased for the seventh consecutive year to \$47,969,000 an increase of 18% or \$7,460,000 over 1977 sales of \$40,509,000. The consolidated revenues of the Company for 1978 were \$16,150,143 versus \$21,991,146 in 1977, a decrease of \$5,841,003. This decrease is mainly due to the sale of four corporate plants during the last quarter of 1977 and one plant in the second quarter of 1978. As explained in the Chairman's Report, these plants had a combined revenue of approximately \$8.0 million for the most recent twelve months of operation. Together with PoP Shoppes' growth and the acquisition of Double Cola, revenues in 1979 should increase significantly.



Philippe C. Gascon, Vice-President
& Chief Financial Officer

During 1978, Management decided to reduce activities in the signing of new franchised territories in order to complete the consumer research and marketing study undertaken during the year. The effect of this decision was the major factor in the decline in license revenues of \$1,379,056. Management expects to actively pursue and sign new franchised territories in 1979 and thereafter.

Earnings. The net earnings for 1978 were up 22% to \$2,571,000, or \$.54 per share (\$.52 fully diluted) compared to \$2,101,000 or \$.46 per share (\$.45 fully diluted) for the previous year. Included in the net earnings for the year is an extraordinary gain of \$1,877,782 which is primarily the net result of two occurrences:

1. On September 29, 1978, Imasco Limited converted a \$7,000,000 (U.S.) note into common shares of PoP Shoppes of America, Inc. This transaction was pursuant to the terms of an agreement dated November 1, 1976. The issue of these shares resulted in a net gain of \$3,054,176. The Company also entered into an agreement with Imasco Limited, whereby both parties were given the right to convert Imasco's common shares, preference shares and advances in the Company, into 478,000 preference shares of a newly created class in PoP Shoppes International, for a total consideration of \$11,950,000 (U.S.). These rights expire on July 31, 1979. If exercised, these preference shares would rank junior to the existing preference shares. Dividends would commence to accrue on the par value of these shares on October 1, 1982. The Company would be required to redeem these preference shares in nine equal annual installments commencing September 30, 1982, the last redemption being on September 30, 1990.

2. During the previous three years, the Company has invested approximately \$15,000,000 in U.S. bottling operations. Your Management has reviewed these investments and recognized that some operations have been slower to mature than anticipated. Accordingly, \$1,341,922 net of income tax and minority interest has been provided for in the accounts.

Changes in Accounting Policies.

In 1978, your Management decided to adopt new accounting policies with respect to opening and development costs, advertising material, initial license revenue, and national promotion

costs. These accounting policies more accurately reflect your Company's position now that it has reached a level of maturity and stability. The effect of this decision is that some \$6,500,000 of costs that were previously deferred, have been written off. These changes have been applied retroactively in the accounts and the financial statements have been restated to reflect these changes.

In the past, initial license revenue was recognized on the signing of an agreement and the payment of the fee. The opening and development costs incurred were deferred and amortized over 60 months. Under our new accounting policies, initial license revenue will be recognized when substantial performance has been rendered and opening costs will be expensed at the time related license fees are recognized as income. These changes are more fully explained in note 2 of the financial statements.

Balance Sheet. On December 31, 1978, total assets were \$54,396,789 compared with \$43,774,498 for the previous year, an increase of \$10,622,291 or 24%. The main increase in the assets in 1978 is in investments and long-term receivables, which reflects the investment of the proceeds resulting from the issue of \$11,800,000 preference shares by a subsidiary to a Canadian chartered bank.

Long-term debt decreased to \$13,313,080 as at December 31, 1978 from \$15,991,361 in the prior year. Major changes in long-term debt included the conversion of the Imasco note referred to earlier, and net increase in other debt financing of \$5,002,119

Dividends. Dividends declared in 1978 to holders of both common and preference shares amounted to \$294,842 compared with \$322,491 in 1977, a decrease of 8.6%. The decrease was a result of the conversion of 10,300 8½% preference shares into common shares. During 1978 the Company paid to the common shareholders a semi-annual dividend of \$.025 per share.

Philippe C. Gascon
Vice-President and
Chief Financial Officer

As at December 31, 1978

Assets

	Current Assets	1978	1977
	Cash and term deposits	\$ 682,217	\$ 4,441,609
	Notes and accounts receivable	4,374,920	4,057,939
	Inventories (note 6)	2,803,696	2,607,372
	Prepaid expenses	175,768	171,355
		8,036,601	11,278,275
	Containers	5,955,203	5,536,705
	Investments and Long-Term Receivables (note 7)	28,262,207	15,496,402
	Fixed Assets (note 8)	5,461,321	5,040,037
	Other Assets (note 9)	6,088,474	6,423,079
	Deferred Income Taxes	592,983	—
		\$54,396,789	\$43,774,498

Approved By The Board

Jeremy N. Kendall
Director

Philippe C. Gascon
Director

As at December 31, 1978

Liabilities

	Current Liabilities	1978	1977
Bank advances (note 5)	\$ 2,881,704	\$ 2,389,141	
Accounts payable and accrued liabilities	2,531,800	4,164,915	
Dividends payable	127,925	132,149	
Deferred revenue	252,942	1,125,626	
Current portion of long-term debt	1,165,660	1,562,857	
		6,960,031	9,374,688
Refundable Deposits on Containers	2,512,300	2,572,546	
Long-Term Debt (note 10)	13,313,080	15,991,361	
Deferred Income Taxes	—	1,626,456	
Minority Interest in Subsidiaries (note 11)	15,455,540	309,962	
	38,240,951	29,875,013	

Shareholders' Equity

Capital Stock (notes 12, 13 and 14)	7,487,371	7,506,904
Retained Earnings	8,668,467	6,392,581
	16,155,838	13,899,485
	\$54,396,789	\$43,774,498

**Consolidated Statement
of Earnings**

For the year ended December 31, 1978

	1978	1977
Revenues		
Concentrate and soft drink	\$12,332,738	\$16,980,770
License	1,589,516	2,968,572
Investment income	766,116	531,936
Gain on sale of businesses	1,461,773	1,509,868
	16,150,143	21,991,146
Income Before the Following	2,575,998	4,056,004
Depreciation and amortization	505,013	588,564
Interest on long-term debt	1,124,745	1,033,409
Other interest	430,634	509,756
	2,060,392	2,131,729
	515,606	1,924,275
Recovery of Income Taxes (note 15)	(299,243)	(227,884)
	814,849	2,152,159
Minority Interest in Subsidiaries	121,903	51,120
Income Before Extraordinary Items	692,946	2,101,039
Extraordinary Items (note 16)	1,877,782	—
Net Earnings for the Year	\$ 2,570,728	\$ 2,101,039
Earnings per Share (note 17)		
Basic		
Earnings for the year before extraordinary items	.12	.46
Net earnings for the year	.54	.46
Fully diluted		
Earnings for the year before extraordinary items	.12	.45
Net earnings for the year	.52	.45

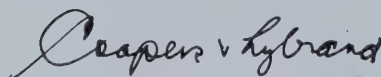
**Consolidated Statement
of Retained Earnings**
For the year ended December 31, 1978

	1978	1977
Balance - Beginning of Year		
As previously reported	\$8,275,134	\$6,066,209
Prior years' adjustments (note 2)	(1,882,553)	(1,452,176)
As restated	6,392,581	4,614,033
Net earnings for the year	2,570,728	2,101,039
	8,963,309	6,715,072
Dividends - preference shares	72,853	106,199
- common shares	221,989	216,292
	294,842	322,491
Balance - End of Year	\$8,668,467	\$6,392,581

**Auditors' Report to
the Shareholders**

We have examined the consolidated balance sheet of PoP Shoppes International Inc. as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes referred to in note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.



Coopers & Lybrand
Chartered Accountants
Kitchener, Ontario
April 30, 1979

**Consolidated Statement
of Changes in Financial Position**

For the year ended December 31, 1978

	1978	1977
Source of Working Capital		
Provided from operations before extraordinary items	\$ —	\$ 972,029
Provided from extraordinary items (note 16)	1,877,782	—
Proceeds from issue of common shares in subsidiaries	6,974,079	—
Proceeds from issue of preferred shares in subsidiaries	12,100,000	—
Proceeds from sale of businesses, net of working capital sold	2,841,180	5,761,057
Reduction of investments and long-term receivables	1,605,782	1,293,401
Increase in refundable deposits on containers	166,050	367,038
Proceeds from long-term debt	12,492,342	9,937,280
	\$38,057,215	18,330,805
Use of Working Capital		
Used in operations before extraordinary items	1,215,794	—
Cost of subsidiaries, net of working capital acquired	297,524	4,808,564
Dividends	294,842	322,491
Purchase of containers	1,337,430	1,011,694
Increase in investments and long-term receivables	19,096,298	13,169,825
Purchase of fixed assets	1,240,523	1,387,945
Additions to other assets	221,188	409,792
Reduction of long-term debt	15,180,633	1,446,627
	38,884,232	22,556,938
Decrease in Working Capital	827,017	4,226,133
Working Capital — Beginning of Year	1,903,587	6,129,720
Working Capital — End of Year	\$ 1,076,570	\$1,903,587

PoP Shoppes International Inc.

1. Summary of Accounting Policies

(a) Basis of Consolidation

The purchase method of accounting for business acquisitions has been followed in the preparation of the consolidated financial statements, which include the assets, liabilities and earnings of all subsidiary companies, except for certain wholly-owned subsidiaries which are being held for resale. Investments in non-consolidated subsidiaries are carried at the company's equity in their net assets and the company's share of their net income is included in the consolidated statement of earnings. The company considers that this basis of presentation is more informative than consolidation since these investments will only be held for a temporary period. Earnings from businesses purchased or sold are included from or to the effective dates of purchase or sale.

Excess costs of investments in subsidiary companies over the fair value of net assets acquired prior to April 1, 1974 are being carried in the accounts at cost without amortization. Excess costs acquired after March 31, 1974 are being amortized on a straight-line basis by charges to earnings over the succeeding forty years.

(b) Translation of Foreign Currencies

Accounts maintained in foreign currencies have been translated into Canadian dollars on the following basis: monetary assets and liabilities at December 31 exchange rates and non-monetary assets and liabilities and capital stock at the exchange rates prevailing at the time of acquisition. Revenues and expenses, with the exception of depreciation of fixed assets and amortization of containers and other assets, are translated at the average annual rate of exchange. Depreciation and amortization are translated at the rates used in the translation of the relevant asset accounts. Translation gains and losses, except as they relate to long-term monetary assets and liabilities, are reflected in the current year's earnings. Translation gains and losses relating to long-term monetary assets and liabilities are recognized to the extent of the expired portion of their total estimated lives.

Translation gains included in net earnings for the current year amount to \$187,879 (1977 - \$56,869).

(c) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis for raw materials and supplies, average cost for finished goods, and specific identification for assets held for resale.

(d) Containers

Containers represent bottles and cases. Containers on hand, to the extent that they do not reflect excess quantities, are classified as inventory at deposit value. The excess of cost over deposit value of such containers and the cost of containers in the hands of customers are classified as non-current assets. The excess of cost over deposit value of all containers is amortized by systematic charges to earnings at the rate of 3¢ per case sold which is considered sufficient to absorb cost, less deposit value, over the estimated useful lives of the containers.

(e) Fixed Assets and Depreciation

Fixed assets are stated at acquisition cost. Depreciation and amortization are provided for in the accounts using the straight-line method in amounts sufficient to amortize cost over the estimated useful lives of the assets at the following annual rates:

Buildings	2 ½ %
Machinery and equipment	5 - 10%
Mobile equipment	15%
Leasehold improvements	over the term of the applicable lease

Notes to Consolidated Financial Statements

For the year ended December 31, 1978

(f) Other Assets

Costs incurred in connection with obtaining long-term debt are amortized over the term of the respective borrowing.

(g) Deferred Income Taxes

The company uses the deferral method of income tax allocation. Under this method, timing differences between reported income and taxable income (which occur when revenues and expenses recognized in the accounts in one year are taxed or claimed for tax purposes in another year) result in deferred taxes.

(h) Recognition of Initial License Fees and Related Costs

Revenue from sales of licenses is initially deferred and recorded as income at the time when substantial performance has been rendered. Similarly, costs related to the sale of these licenses are deferred subsequent to the signing of a letter of intent and charged to income when the related license fee is recorded as income.

(i) Other

Costs incurred in the opening and development of factory stores and wholesale outlets are expensed as incurred. In addition to national advertising and promotion expenses, costs incurred in the development of advertising material utilized in the national and local promotion campaigns are expensed as incurred.

(j) Leases

All of the company's leases are accounted for under the operating method and accordingly rental payments are charged to income as incurred.

2. Prior Years' Adjustments

(a) Changes in accounting policies

In 1978, the company changed its accounting policies with respect to opening and development costs, advertising material, initial license revenue and national promotion costs. These changes have been applied retroactively in the accounts. The previous and present policies relating to these items are as follows:

i) Opening and Development Costs

Present Policy -

Development costs expensed as incurred; opening costs deferred and expensed when the related license fee is recognized as income

Previous Policy -

Opening and development costs deferred and amortized over 60 months

ii) Advertising Material Costs

Present Policy -

Advertising material costs expensed as incurred

Previous Policy -

Advertising material costs deferred and amortized over 60 months

iii) Initial License Revenue

Present Policy -

Initial license revenue is deferred and recognized when substantial performance has been rendered

Previous Policy -

Initial license revenue recognized on signing of agreement and payment of fee

iv) National Promotion Campaigns

Present Policy -

National promotion campaigns expensed as incurred

Previous Policy -

National promotion campaigns deferred and amortized over 12 months on a sum-of-digits basis.

(Prior Years' Adjustments continued, page 20)

PoP Shoppes International Inc.

Notes to Consolidated Financial Statements

For the year ended December 31, 1978

(b) Accounting adjustments of prior year

Accounts previously reported as at December 31, 1977 have been restated to reflect additional expenses relating to that year which were not previously recorded.

(c) The effect of prior years' adjustments

The above adjustments increase (decrease) retained earnings of prior years as indicated in the table below:

	Amount	Income Tax Effect	Minority Interest	Retained Earnings
December 31, 1977				
Accounting policies				
- Opening and development	\$(1,558,459)	\$ 669,410	\$106,695	\$ (782,354)
- Advertising material	(517,913)	231,900	20,044	(265,969)
- License revenue	(1,125,626)	457,300	133,665	(534,661)
- National promotions	(130,917)	57,259	—	(73,658)
Accounting adjustments	(445,828)	189,838	30,079	(225,911)
	\$(3,778,743)	\$1,605,707	\$290,483	\$(1,882,553)
December 31, 1976				
Accounting policies				
- Opening and development	\$(1,761,584)	\$ 789,152	\$ 72,195	\$ (900,237)
- Advertising material	(400,134)	176,300	20,223	(203,611)
- License revenue	(425,000)	163,000	52,400	(209,600)
- National promotions	(250,728)	112,000	—	(138,728)
	\$(2,837,446)	\$1,240,452	\$144,818	\$(1,452,176)

3. Acquisitions

During the year a subsidiary of the company acquired the assets and assumed the liabilities of the licensed territory of Quebec City accounting for it by the purchase method as follows:

Net assets acquired, at fair values:

Total assets	\$624,287
Total liabilities	703,715
	(79,428)
Goodwill, being the excess of the purchase price over the fair value of net assets acquired	186,928
Cash consideration	\$107,500
Effective date of acquisition	December 1, 1978

In addition, the company and its subsidiaries acquired the assets and assumed the liabilities of certain businesses, accounting for them on the equity basis. The excess of the purchase price over the fair value of net assets acquired amounted to \$1,879,581 which is being amortized against income in accordance with the company's accounting policies as described in note 1.

4. Comparative Figures

Certain of the 1977 figures on the balance sheet, statement of earnings and statement of changes in financial position have been reclassified to conform to the 1978 presentation.

(d) The effect on current year's net earnings

Had the previous accounting policies been in existence for the current year, the net earnings in 1978 would have been decreased by \$265,740 which is net of income taxes of \$238,850 and minority interest of \$45,000.

5. Security for Bank Advances

A fixed and floating charge on all of the company's property and assets now owned or hereafter acquired has been pledged as security for the bank advances and the term loans.

6. Inventories

	1978	1977
Raw materials	\$ 309,154	\$ 284,805
Finished goods	180,732	264,015
Supplies	173,435	325,233
Assets held for resale	1,221,804	642,913
Containers	918,571	1,090,406
	\$2,803,696	\$2,607,372

7. Investments and Long-Term Receivables

	1978	1977
(a) Investments in licensees, at cost less amounts written-off	\$13,231,015	\$14,981,052
Note receivable from affiliated company	11,800,000	—
Due under employee share purchase plans, less current portion of \$7,108	89,720	515,350
Investments in shares of and advances to unconsolidated subsidiaries - at equity value	3,141,472	—
	\$28,262,207	\$15,496,402

**PoP Shoppes
International Inc.**

**Notes to Consolidated
Financial Statements**

For the year ended December 31, 1978

(b) The employee share purchase plans are arranged for senior officers and employees, certain of whom are shareholders and directors of the company. Under these plans \$96,828 has been advanced by way of loans without interest to enable the trustee to acquire common shares on behalf of the members of the plan.

Amounts due under these plans are as follows:

1979	\$ 7,108
1980	5,122
1981	6,441
1982	7,259
1983 - 1990	70,898
	\$96,828

8. Fixed Assets

	Cost	Accumulated depreciation	1978	1977
Land	\$ 972,093	\$ —	\$ 972,093	\$ 781,804
Buildings and leasehold improvements	2,505,794	257,571	2,248,223	1,921,809
Machinery and equipment	2,513,457	511,810	2,001,647	2,090,971
Mobile equipment	399,833	160,475	239,358	245,453
	\$6,391,177	\$ 929,856	\$5,461,321	\$5,040,037

9. Other Assets

	Cost	Accumulated amortization	1978	1977
Initial license costs	\$ 15,380	\$ —	\$ 15,380	\$ —
Deferred foreign exchange	6,503	—	6,503	324,361
Borrowing costs	171,099	12,037	159,062	58,047
Issue cost of 8½ % preference shares	51,299	—	51,299	68,088
Trademark and organization expense	350,729	8,496	342,233	292,518
Goodwill	5,679,202	165,205	5,513,997	5,680,065
	\$6,274,212	\$185,738	\$6,088,474	\$6,423,079

10. Long-Term Debt

	1978	1977
(a) The Company		
14½ % debenture due 1980	\$ —	\$ 1,120,000
Demand term loan	—	109,720
Interim loans to be replaced by long-term financing	—	3,023,600
Advances from parent company	368,263	25,803
	368,263	4,279,123
(b) Subsidiaries		
9 - 10¼ % debentures and mortgages due 1980 - 1992 secured by fixed and/or floating charges	567,867	1,046,198
Conditional sales agreements due 1979 - 1981	82,676	98,770
Term bank loans due 1985 at prime bank rate plus 1½ - 1¾ %	10,845,269	4,270,616
7% notes payable to minority shareholder subordinated to the term bank loans	2,307,847	—
Notes payable due 1979 - 1984 varying from non-interest bearing to 10%	306,818	179,111
7% note payable to minority shareholder	—	7,680,400
	14,478,740	17,554,218
Less: current portion	1,165,660	1,562,857
	\$13,313,080	\$15,991,361

(Long Term Debt continued, page 22)

PoP Shoppes International Inc.

Notes to Consolidated Financial Statements

For the year ended December 31, 1978

(c) The bank term loans are secured by fixed and specific mortgage charges on the property and equipment of certain subsidiaries, a floating charge debenture on all their remaining assets and the common shares of the capital stock of a subsidiary, PoP Shoppes of America, Inc. The term loan agreements contain covenants covering: i) debt to equity ratios and current ratios ii) limitations of current liabilities iii) restricted payments relating to dividends iv) maximum annual lease obligations.

(d) Principal payments on long-term debt required during the next five years are as follows:

1979	\$1,165,660
1980	1,731,213
1981	1,621,625
1982	1,621,000
1983	1,608,000
	\$7,747,498

12. Capital Stock

(a) Authorized

71,560 first preference shares with the par value of \$25 each issuable in series, of which 31,560 shares constitute the first series designated as 8½ % cumulative redeemable convertible first preference shares series A

10,140,700 common shares without par value

11. Minority Interest in Subsidiaries

	1978	1977
(a) Preferred shares	\$12,300,000	\$200,000
Common share equity	3,155,540	109,962
	\$15,455,540	\$309,962

(b) Included in preferred shares is \$11,800,000 of par value shares issued, in 1978, by one of the company's subsidiaries to a Canadian chartered bank. These shares are cumulative with dividends payable quarterly commencing February 1979.

These shares are redeemable at the option of the company or the holder of the shares, at a redemption price equal to the par value of the shares plus all accrued and unpaid dividends thereon. In addition, the company is obliged to redeem all of the preferred shares in November 1983.

(b) Issued	1978	1977
31,560 8½ % first preference shares series A	\$ 789,000	\$1,046,500
4,446,688 common shares	6,698,371	6,460,404
	\$7,487,371	\$7,506,904

The 8½ % first preference shares may be redeemed at the option of the company before July 15, 1979 at \$30 per share. The redemption price decreases by \$1 each year to July 15, 1983 and thereafter is par value.

(c) Changes in Capital Stock

	1978 Number of Shares	1978 Amount	1977 Number of Shares	1977 Amount
Preference Shares				
Balance – beginning of year	41,860	\$1,046,500	59,000	\$1,475,000
Converted to common shares	(10,300)	(257,500)	(17,140)	(428,500)
Balance – end of year	31,560	\$789,000	41,860	\$1,046,500
Common Shares				
Balance – beginning of year	4,395,188	\$6,460,404	4,304,988	\$6,020,446
Issued under employee share purchase plan	—	—	4,500	38,274
Issued for conversion of preference shares	51,500	257,500	85,700	428,500
Costs of issue	—	(19,533)	—	(26,816)
Balance – end of year	4,446,688	\$6,698,371	4,395,188	\$6,460,404

13. Stock Options and Other Rights

An option is outstanding to purchase 169,286 common shares at a price of \$3.79 per share. This option is exercisable at any time until mid 1980.

The 8½ % first preference shares are convertible up to July 15, 1980 on the basis of 5 common shares for each preference share and from July 15, 1980 to July 15, 1985 on the basis of 3 common shares for each preference share.

Under the employee share purchase plan, 65,073 common shares, which have been set aside, remain unissued.

The company has entered into an agreement with its minority shareholder in PoP Shoppes of America, Inc., whereby either:

(a) the company may acquire from the minority shareholder its interest in the common shares and preferred shares of PoP Shoppes of America, Inc., and its advances made to the company or

PoP Shoppes International Inc.

(b) the minority shareholder may sell to the company the same interests as noted in (a) above.

Both of these options expire July 31, 1979. If exercised, the purchase price of this transaction under either alternative would be as follows:

	(in U.S.\$)
Common shares	\$10,000,000
Preferred shares	200,000
Notes	1,750,000
	\$11,950,000

Consideration for this purchase would be satisfied by the company issuing from treasury 478,000 preference shares of a newly created class of shares. These newly created preference shares would rank junior to the existing 8½% first preference shares presently issued and outstanding and would be designated as 5% non-voting cumulative redeemable second preference shares with a par value of \$25 (U.S.) each. Dividends would not commence to accrue on the par value of these preference shares until October 1, 1982. The company would be required to redeem at least 53,111 second preference shares annually commencing September 30, 1982 and the remaining issued and outstanding shares on September 30, 1990 at an amount equal to their par value.

If either option is exercised, the company has agreed that until March 31, 1983, it will not declare or pay dividends in excess of:

- (a) 5¢ per share per annum on its common shares
- (b) 8½% per annum on the par value of its outstanding first preference shares
- (c) 8½% per annum on the par value of any preference shares of the company hereafter issued ranking junior to the new preference shares

14. Restriction on Payment of Dividends

The provisions attaching to the first preference shares of the company preclude declaring or paying dividends (other than certain stock dividends) on its outstanding common shares unless all dividends accumulated on the first preference shares have been paid or set apart for payment. Such provisions further provide that no dividends (other than certain stock dividends) may be declared on the common shares of the company except out of consolidated net earnings available for dividends earned subsequent to December 31, 1974 or out of the proceeds of any issue of shares by the company after August 12, 1975.

Provisions of the bank term loans restrict the company from declaring or paying dividends in respect of any fiscal year in an amount which exceeds 50% of the net earnings of the company and its Canadian subsidiaries.

15. Income Taxes

	1978	1977
(a) Current	\$ (74,900)	\$ 154,245
Deferred	(224,343)	(382,129)
	\$(299,243)	\$(227,884)

(b) Included in earnings are items which are not considered income for tax purposes. Without these permanent differences between income for accounting purposes and income for tax purposes, the current year's provision for income taxes would have been \$281,757 (1977 - \$974,116).

Notes to Consolidated Financial Statements

For the year ended December 31, 1978

16. Extraordinary Items

	1978	1977
Gain on share issue of subsidiary	\$3,054,176	—
Reduction of current year's income taxes on application of losses in prior years	165,528	—
Write-down of investments and long term receivables (net of income tax of \$1,535,757 and minority interest of \$735,921)	(1,341,922)	—
	\$1,877,782	—

The gain on share issue of subsidiary resulted from a \$7,000,000 (U.S.) note payable to a minority shareholder being converted into treasury shares of a subsidiary, PoP Shoppes of America, Inc. This gain was reduced by interest expenses of \$204,581 (net of income tax of \$250,079 and minority interest of \$55,726) accrued on the 7% notes payable to the minority shareholder. If either the company or the minority shareholder exercises its option as described in note 13, the accrued interest would be waived.

17. Earnings per share

(a) Basic earnings per share have been calculated using the weighted average number of shares outstanding during the period.

(b) Fully diluted earnings per share have been calculated after giving effect to the exercise of the outstanding stock options and other rights and conversions of the 8½% first preference shares.

18. Contingent Liabilities

The company and its subsidiaries have guaranteed debts in the amount of \$2,402,400 (1977 - \$2,254,500) on behalf of licensee companies. Of the \$2,402,400, the company has received a personal indemnification from a licensee owner in the amount of \$500,000.

19. Subsequent Event

In January 1979, the company acquired all the issued and outstanding shares of Cooper Dorland, Inc. of Chattanooga, Tennessee for \$1,472,000 (Cdn.) consisting of cash of \$643,250, 7% notes of \$708,750 due \$236,250 on each of January 31, 1980, 1981 and 1982 and 30,000 treasury common shares of the company valued at \$4 each.

The 7% notes are convertible into common shares of the company on the basis of \$4.28, \$4.58 and \$4.90 per common share on each of their respective due dates.

20. Long-Term Leases

Minimum annual commitments under lease agreements are as follows:

1979	\$ 737,251
1980	588,210
1981	435,627
1982	317,891
1983	250,528
	\$2,329,507

21. Statutory Information

The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers (as defined by The Business Corporations Act, Ontario) amounted to \$276,473 (1977 - \$328,590).

Seven Year Financial Review

	1978	1977	1976	1975	1974(a)	1974(b)	1973
Revenues	16,150,143	21,991,146	16,711,616	13,682,854	8,822,703	5,020,026	1,231,006
Earnings before Extraordinary items	692,946	2,101,079	3,121,162(c)	750,201	469,977	492,551	96,981
Per share	.12	.45	.70	.18	.14	.16	.10
Net Earnings	2,570,728	2,101,039	3,121,162	847,201	469,977	552,702	96,981
Per share	.52	.45	.70	.21	.14	.18	.10
Shares outstanding (d)	4,422,972	4,331,663	4,302,904	3,523,823	3,361,620	3,049,278	1,012,500
Dividends — preference	72,853	106,199	125,906	111,185	—	—	—
— common	221,989	216,292	215,249	—	—	—	—
Total Assets	54,396,789	43,774,498	30,694,193	21,348,266	15,409,406	9,572,544	3,535,619
Shareholders' Equity	16,155,838	13,899,485	12,109,479	9,330,811	4,308,441	3,170,228	97,048
Book value per share (e)	3.63	3.16	2.81	2.17	1.27	.99	.04

(a) Eleven months ended December 31, 1974.

(b) Year ended January 31, 1974.

(c) Includes gain of \$1,711,633 on the sale to Imasco Limited of 20% of the equity of PoP Shoppes of America, Inc., which represents \$.39 per share.

(d) Weighted average of common shares outstanding during the year.

(e) Based on the common shares outstanding at the end of the year.

Pop Shoppes International Inc.

As at June 18, 1979

1 Eva Road
Etobicoke, Ontario
M9C 4Z5
(416) 622-1111

Executive Officers

As at March 1, 1979

Jeremy N. Kendall
Chairman of the Board

Donald E. Loeb
*Vice-Chairman
of the Board*

Ralph E. Peterson
*President &
Chief Executive Officer*

Robert E. M. Nourse
Executive Vice-President

Philippe C. Gascon
*Vice-President &
Chief Financial Officer*

William F. Emery
*Vice-President,
Quality Assurance*

Christopher W. E. Hovey
*Vice-President,
Corporate Planning*

Edward M. Yeats
Vice-President/Controller

Paul J. Denomme
Treasurer

Board of Directors

As at March 1, 1979

Allan R. Biggs*
*President
Grandma Lee's of Canada
Limited*

Philippe C. Gascon
*Vice-President & Chief
Financial Officer
PoP Shoppes
International Inc.*

Jeremy N. Kendall
*Chairman & Chief
Executive Officer
Venturetek
International Limited*

Donald E. Loeb
*President &
Chief Operating Officer
Venturetek
International Limited*

George A. Minden
*President
Windsor Arms Hotel
Limited*

Roger Neron
*President &
Chief Executive Officer
Culinar Inc.*

Robert E. M. Nourse
*Executive Vice-President
PoP Shoppes
International Inc.*

Ralph E. Peterson
*President &
Chief Executive Officer
PoP Shoppes
International Inc.*

Peter K. Powell*
*Executive Vice-President
Finance & Administration
Canada Development
Corporation*

Wilmat Tennyson*
*Executive Vice-President
Imasco Associated
Products Limited*

* Members of the Audit
Committee

Principal Subsidiaries**PoP Shoppes of Canada Limited**

As at June 18, 1979

1 Eva Road
Etobicoke, Ontario
M9C 4Z5
(416) 622-1111

William Y. May
*Vice-President,
Canadian Operations*

PoP Shoppes of America, Inc.

3350 Broad Street
Chattanooga, Tennessee
37402
(615) 267-5691

Tom Thompson
*Vice-President,
U.S. Operations*

Cooper Dorland, Inc. (Double Cola)

3350 Broad Street
Chattanooga, Tennessee
37402
(615) 267-5691

Wayne R. Downey
*President &
Chief Executive Officer*

Kist Canada, Limited

11 Cobourg Street
Stratford, Ontario
N5A 6T1
(519) 271-1550

Mark J. Seguin
*President &
General Manager*

Towne Club Beverage Corp.

25109 Ryan Road
Warren, Michigan
48091
(313) 756-4880

Harold Samhat
*President &
General Manager*

Investment Bankers

Merrill Lynch,
Royal Securities Limited

Auditors

Coopers & Lybrand

Solicitors

Day, Wilson, Campbell,
Barristers & Solicitors
Toronto, Ontario

Shepherd, McKenzie,
Plaxton, Little & Jenkins
London, Ontario

Holland & Hart
Denver, Colorado

Gillenwater & Associates
Bristol, Tennessee

Principal Bankers

The Royal Bank of Canada

The Royal Bank
and Trust Company

The Mitsubishi Bank
of California

The Bank of Montreal

Transfer Agent and Registrar

Canada Permanent Trust
Company

Stock Listings Symbol

Toronto Stock Exchange	PSI
Montreal Stock Exchange	PSI
National Over-the-Counter Market (NASDAQ)	PSIIF

Annual General Meeting

June 28, 1979, 4:00 p.m.
Four Seasons Hotel
Toronto, Ontario

